

Question 1 (13 marks)

You learnt that the Organisation of Petroleum Exporting Countries (OPEC) decided to reduce the supply of oil by 9.7 million barrels per day from May 2020. In this context, answer the following questions.

Question 1A: What made OPEC decide to cut the oil supply? What was the desired outcome of this decision? What was the change in the supply and demand curves of oil and the subsequent market equilibrium? Analyse the changes both before and after the decision to reduce supply with respect to price change and shift in demand curve. (2 + 2 + 4 marks)

Question 1B: What type of market (market structure) does OPEC operate in? What are the three key features of such a market structure? (2 + 3 marks)

Question 2 (12 marks)

Suppose you own a small Italian news website. Your team consists of journalists who write news articles on the website. The wage of each journalist is €3,000 per month. Your office building and utilities cost €8,000 per month. The business earns ad revenue from each article it produces.

From past experience, you know the number of articles you can produce based on the number of journalists you employ.

No. of Journalists	No. of Articles per Month
1	15
2	29
3	42
4	54
5	65
6	75
7	84

8	92
9	99
10	105

You may use the following Excel sheet “ Italian News Website” to help with calculations.

Question 2A: Assume that the business was operating at the profit maximising level of output before the Covid-19 outbreak. Each article brought in ad revenue of €375.

Determine how many articles was the business producing? (2 marks)

What was the total profit? (1 mark)

Explain conceptually how you arrived at the profit maximising level of output. You do not need to show exact calculations. (3 marks)

Question 2B: On 9 March 2020, Italy went into lockdown. As a result, you had to shut down your office and adopt a work-from-home policy. This eliminated your fixed costs of €8,000. At the same time, your ad revenue per article fell to €250. This was because all companies suddenly reduced their advertising spending.

How many journalists would you have to fire? Assume that you only care about maximising profits. (2 marks)

What is your new total profit? (1 mark)

Why did you fire the journalists? Explain your answer conceptually. You do not need to show exact calculations. (3 marks)

Question 3 (8 marks)

The Covid-19 situation of 2020 has severely affected economies across the world. The Indian economy, too, has been severely affected by this crisis, with different sectors of the economy being affected at different levels. Based on your understanding of the situation, provide detailed answers for each of the components mentioned below.

Question 3A: What type of unemployment would a country like India experience from such a pandemic? Please provide an explanation. (4 marks)

Question 3B: What type of recession would be caused by such a pandemic? Provide an explanation. (4 marks)

Question 4 (7 marks)

With regard to a country like India, where such pandemics affect millions of people and severely cripple the economy, answer the following:

Question 4A: What type of macroeconomic policy should the Indian government adopt after such a crisis? Mention the policy measures to be undertaken clearly along with explanations. (3 marks)

Question 4B: What type of macroeconomic policy should the Reserve Bank of India adopt after such a crisis? Mention the policy measures to be undertaken clearly along with explanations. (4 marks)